

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name <b>PORT OF MONROE PORT DISTRICT</b>	County <b>MONROE</b>
Audit Date <b>6/30/05</b>	Opinion Date <b>7/20/05</b>	Date Accountant Report Submitted to State: <b>12/14/05</b>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- |   |   |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).  |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).  |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).  |

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) <b>COOLEY HEHL WOHLGAMUTH &amp; CARLTON, CPAS, PLLC</b>			
Street Address <b>ONE SOUTH MONROE STREET</b>		City <b>MONROE</b>	State <b>MI</b>
		ZIP <b>48161</b>	
Accountant Signature <i>David M. Hehl, CPA</i>			Date <b>12/14/05</b>

**PORT OF MONROE**  
Monroe, Michigan

FINANCIAL REPORT

For the Year Ending June 30, 2005

# **PORT OF MONROE**

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## Independent Auditor's Report

Monroe Port Commission  
Port of Monroe  
2929 East Front Street  
Monroe, Michigan 48161

We have audited the accompanying financial statements of the Port of Monroe, Monroe, Michigan, a component unit of the City of Monroe, Michigan as of and for the year then ended June 30, 2005 as listed in the table of contents. These financial statements are the responsibility of the Port of Monroe management. Our responsibility is to report on these financial statements based on our audits.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our report.

The financial statements present only the Port of Monroe, and are not intended to present fairly the financial position of the City of Monroe, Michigan and the results of its operations and cash flows of its proprietary fund types and nonexpendable trust funds.

As discussed in Note 9 to the financial statements, the Port of Monroe owns property which is undergoing environmental remediation. The Port of Monroe is one of several potentially responsible parties for these costs, the total amount of which has not been determined. As of June 30, 2005 a provision was made in the accompanying financial statements for the minimum amount of the range of estimated liability.

Because of the significance of the uncertainty described in the preceding paragraph, we are unable to express, and we do not express, an opinion on the financial statements referred to in the first paragraph for the year ended June 30, 2005.

Management's Discussion and Analysis is not a required part of the financial statements, but is required supplementary information. We applied limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion thereon.

Monroe Port Commission  
Port of Monroe

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Our audit was conducted for the purpose of forming an opinion on the financial statements of the Port of Monroe, taken as a whole. The budgetary comparison schedule is presented for additional analysis and is not a required part of the financial statements. We subjected this information to the auditing procedures applied in the audit of the financial statements but, as noted above, because of the significance of the uncertainty described above, we are unable to express, and we do not express an opinion on the schedule.

*Cooley Hohl Wohlgenuth & Carlton, PLLC*

July 20, 2005

**PORT OF MONROE  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2005**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

As management of the Monroe Port Commission, we offer the readers of the Monroe Port Commission's financial statements this narrative overview and analysis of the financial activities of the Monroe Port Commission for the fiscal year ended June 30, 2005. Please read it in conjunction with the transmittal letter, also called the Independent Auditor's Report, found in the front of this report, and the Port's financial statements, which follow this section.

**Financial Highlights**

The Port of Monroe (the "Port") is a separate legal entity created by a vote of the people of the City of Monroe (the "City") in 1932 in accordance with the Port District Act. For accounting purposes, it is considered a component unit of the City.

As shown on the Statement of Net Assets below, the Port's assets exceed its liabilities by \$3,180,345. The net assets have decreased by \$117,154 for fiscal year 2004-2005 when comparing the beginning of the fiscal year to the end of the fiscal year. In considering this decrease, it should be noted that the financial statements reflect a non-cash depreciation expense of \$93,346. Net assets may, over time, enable governmental agencies to determine their overall fiscal position. With respect to net assets, the Port's net asset position has remained essentially the same from the beginning of the fiscal year.

The Port's position in cash and cash equivalents increased by \$20,387 during fiscal year ended June 30, 2005. This increase was primarily the result of 2005 property taxes collected prior to June 30, 2005, in the amount of \$45,993.

The Port received an additional quarter mill of general property taxes in the approximate amount of \$238,000 for fiscal 2006. The general purposes for the additional levy are to provide for a director of economic development, to purchase abandoned or underutilized parcels of land and to demolish blighted or functionally obsolete buildings for reuse thereby creating jobs, enhancing the tax base for the City of Monroe and improving the quality of life. The goals of the director of economic development include working to retain businesses already in the City and to recruit new businesses by facilitating their interface with state and local government in the regulatory arena and in obtaining economic incentives based on new investment and job creation. Every local community in Michigan and in the mid-west competes intensely for new jobs and investment dollars. As an advocate of business, the economic development director will improve the City's competitiveness in retaining and recruiting businesses, jobs, and investment.

In June of 2005 the Port of Monroe purchased the vacant building at 14 East First Street in the City of Monroe on land contract for \$260,000, funded, in part, from the additional levy. See Note 12 for further details. The plans for the building include expansion space for the Dorsch Memorial Library located immediately next door and for instructional space for educational opportunities facilitated by the City's Department of Development Services. It is expected that these opportunities will enhance cultural opportunities for existing and new city residents who will be supportive of downtown businesses and provide a skilled workforce for existing and new businesses interested in remaining or locating in the City.

**PORT OF MONROE  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2005**

**Overview of Financial Statements**

This discussion and analysis is intended to provide a basis of understanding of the Port's basic financial statements. These statements present the following components: presentation of net assets; presentation of revenues, expenses, and cash flows; notes to financial statements; and supplemental information. While the financial statements show other non-operating revenues including property tax, the operations of the Port as a component unit of the City are accounted for as a single proprietary fund that accounts for the operations that are financed through user charges to the general public.

**Statement of Net Assets.** The statement of net assets presents information on all of the Port's assets and liabilities, with differences between the two reported as net assets. The capital assets of the Port are listed in the Statement of Net Assets. Over time, increases and decreases in the net assets reflect activities by the Port that may have positive or negative financial impact on the overall fiscal position of the Port.

**Statements of Revenues, Expenses and Cash Flows.** These statements present information about the Port's operating and non-operating revenues and expenses, a comparison of cash and cash equivalents between the beginning and the end of the fiscal year, and a reconciliation of operating income to net cash from operating activities.

**Notes to the financial statements.** The notes provide additional information for a full understanding of the data provided in the Port's financial statements.

**Supplemental Information.** The supplemental information in the Port's financial statements consists of the budgetary schedule, which compares actual amounts with the original and amended budgets as approved by the Port and the City.

**PORT OF MONROE  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2005**

**Condensed Statement of Net Assets.** Below you will find the financial statements presented in a condensed format. The details along with certain reconciliations are presented in the financial statements that follow Management's Discussion and Analysis.

	<u>2005</u>	<u>2004</u>
<b>Assets:</b>		
Current assets	\$587,983	\$416,584
Restricted cash - held in trust	19,910	28,282
Property and Equipment	<u>3,805,885</u>	<u>3,585,404</u>
Total assets	<u><u>\$4,413,778</u></u>	<u><u>\$4,030,270</u></u>
<b>Liabilities:</b>		
Current liabilities	\$635,217	\$280,213
Contract payable	165,658	0
Due to City of Monroe (Extension of Utilities)	80,000	100,000
Deferred income - rent	52,558	52,558
Environmental	<u>300,000</u>	<u>300,000</u>
Total liabilities	<u><u>\$1,233,433</u></u>	<u><u>\$732,771</u></u>
<b>Net assets:</b>		
Invested in capital assets - net of related debt	\$3,445,885	\$3,465,404
Restricted - environmental trust	19,910	28,282
Unrestricted	<u>(285,450)</u>	<u>(196,187)</u>
Total net assets	<u><u>\$3,180,345</u></u>	<u><u>\$3,297,499</u></u>



**PORT OF MONROE  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2005**

**Condensed Statement of Revenues, Expenses, and Changes in Net Assets and Cash and Cash Equivalents**

	<u>2005</u>	<u>2004</u>
Operating revenues	\$124,529	\$121,544
Non-operating revenues	<u>231,956</u>	<u>226,251</u>
Total revenues	356,485	347,795
Operating expenses		
Total expenses	<u>473,639</u>	<u>422,325</u>
Change in net assets (revenues less expenses)	<u><u>(\$117,154)</u></u>	<u><u>(\$74,530)</u></u>
Total net assets, beginning of year	\$3,297,499	\$3,372,029
Increase (Decrease) in net assets	<u>(117,154)</u>	<u>(74,530)</u>
Total net assets, end of year	<u><u>\$3,180,345</u></u>	<u><u>\$3,297,499</u></u>
Cash in	\$665,334	\$336,435
Cash out	<u>(644,947)</u>	<u>(446,659)</u>
Net Increase (Decrease) in cash and cash equivalents	<u><u>\$20,387</u></u>	<u><u>(\$110,224)</u></u>
Cash and cash equivalents, beginning of year	\$100,813	\$211,037
Net Increase (Decrease) in cash and cash equivalents	<u>20,387</u>	<u>(110,224)</u>
Cash and cash equivalents, end of year	<u><u>\$121,200</u></u>	<u><u>\$100,813</u></u>

**Financial Analysis**

The increase in the Port's cash and cash equivalents by \$20,387 during fiscal year 2005 resulted from the collection of 2005 property taxes prior to June 30, 2005 in the amount of \$45,993. The capital assets, net of depreciation and related debt, decreased by \$19,519 because the Port's acquisitions, net of debt, were less than the current year depreciation. The levy of the additional quarter mill and the purchase of the property at 14 East Front Street, discussed under Financial Highlights on page 1, account for other differences in the above Condensed Statement between 2005 and 2004.

**PORT OF MONROE  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2005**

**Budgetary Highlights**

The Port budget is set out in the supplemental information comparing the initial and amended budgets and the actual amounts spent in the various categories. Under Operating Revenue, the Port received \$4,200 from the City of Monroe Brownfield Redevelopment Authority Board for providing administrative support services. This arrangement is expected to continue for fiscal 2006. Land rental income decreased because the tenant vacated the Schonsheck building located on the former Southside Consolidated property in January 2005. Prior uncollected rent of \$45,000 from a different land tenant had been determined to be uncollectible and therefore has been written off as a bad debt expense reducing the accounts receivable.

The wastewater treatment expense decreased by \$11,758, or 41%, under the prior year. This decrease resulted primarily from a decrease in storm water. The amount of rainfall will be a primary factor in this expense in the future.

**Capital Asset and Debt Administration**

	Beginning Balance	Additions	Deletions	Ending Balance
Total Nondepreciable Capital Assets	\$2,300,826	\$49,641	\$0	\$2,350,467
Total Depreciable Capital Assets	2,713,018	264,186	0	2,977,204
Total Capital Assets	5,013,844	<u>\$313,827</u>	<u>\$0</u>	5,327,671
Less Total Accumulated Depreciation	1,428,440	<u>\$93,346</u>	<u>\$0</u>	1,521,786
Total Capital Assets, Net	<u>\$3,585,404</u>			<u>\$3,805,885</u>

A vacant building in downtown Monroe was purchased in June 2005. The purchase price was split \$32,500 for the land and the balance of \$227,500 for the building. Other capital improvements included electrical improvements at the dock, clay fill for the lagoons, and office equipment.

The Port has agreed to reimburse the City for cost of certain infrastructure improvements as a part of a state grant. The balance of \$100,000 as of June 30, 2005, will be paid in annual installments of \$20,000 until paid in full. See Note 11 to the financial statements for more detailed information.

**PORT OF MONROE  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2005**

**Economic Factors**

The Port continues to receive inquiries about industrial development and intermodal transportation opportunities, due in part, perhaps, to the rising costs of other types of transportation. Development projects are currently under consideration that would involve rail and lake shipping opportunities. Brownfield plans and preliminary land use applications have been approved. The tenant's departure, in January 2005, from the 106,000 square foot building located on the former Southside Consolidated Paper Mill may be evidence of Michigan's shrinking automotive supplier business. The competition for investment and jobs continues to intensify. The Port in partnership with the City of Monroe, through the increased levy for the Port, has employed a full time professional in the area of economic development to recruit new businesses and retain existing businesses within the City of Monroe. This person's role is to act as a strong advocate for businesses and developers in facilitating and expediting regulatory procedures and obtaining all available financial incentives.

The Port will continue to work with the Michigan Department of Environmental Quality in finalizing a remedial action plan for the industrial landfill located at the Port and will continue to devote significant revenues to this necessary activity as required by the State of Michigan.

**Requests for Information**

This financial report is designed to provide a general overview of the Port's finances for all those with an interest in this component unit of the City. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Monroe Port Commission, Attention: Chairman, 2929 E. Front Street, P.O. Box 585, Monroe, MI 48161.

BALANCE SHEET

June 30, 2005

**Assets**

## Current Assets

Cash and cash equivalents	\$121,200
Accounts receivable	5,279
Property taxes receivable, less allowances of \$14,217	28,123
Due from City of Monroe - property taxes	406,485
Prepaid expenses	26,896

Total Current Assets 587,983

## Restricted Assets

Restricted cash - held in trust	19,910
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## Capital Assets

Property and equipment - net	3,805,885
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Total Assets \$4,413,778

**Liabilities and Net Assets**

## Current Liabilities

Accounts payable	\$22,298
Current portion of contract payable	94,342
Due to City of Monroe	20,000
Other accrued expenses	1,416
Deposits	7,000
Deferred income - property taxes	477,283
Current portion of deferred income - rent	12,878

Total Current Liabilities 635,217

## Long-Term Liabilities

Contract payable	165,658
Due to City of Monroe	80,000
Deferred income - rent	52,558
Environmental	300,000

Total Long-term Liabilities 598,216

Total Liabilities 1,233,433

## Net Assets

Invested in capital assets, net of related debt of \$360,000	3,445,885
Restricted - environmental trust	19,910
Unrestricted	(285,450)

Total Net Assets 3,180,345

Total Liabilities and Net Assets \$4,413,778

(See accompanying notes to financial statements)

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

For the Fiscal Year Ended June 30, 2005

	<u>Amount</u>	<u>Percentage of Operating Revenue</u>
<b>Operating Revenues</b>		
Building rental	\$44,693	35.9
Land rental	28,488	22.9
Wharfage and dockage	36,652	29.4
MCIDC - office rental	10,000	8.0
Administrative services	4,200	3.4
Other	496	0.4
Total Operating Revenues	124,529	100.0
<b>Operating Expenses</b>		
Consulting engineers	74,828	60.1
Salaries	41,216	33.1
Environmental expense	15,876	12.7
Environmental travel and meetings	90	0.1
Repairs and maintenance	46,332	37.2
Legal	57,163	45.9
Auditing and accounting	10,360	8.3
Utilities	7,930	6.4
Telephone	1,066	0.9
Office supplies and postage	2,166	1.7
Life and medical benefits	431	0.3
General insurance	31,503	25.3
Payroll tax	3,045	2.4
Office cleaning	3,120	2.5
Travel - general	1,347	1.1
Promotion	1,222	1.0
Dues and subscriptions	2,055	1.7
Deferred compensation plan	2,130	1.7
Security	74	0.1
Miscellaneous expense	422	0.2
Commissioner fees	4,900	3.9
Advertising	1,092	0.9
MCIDC - marketing	10,000	8.0
Depreciation expense	93,346	75.0
Wastewater treatment	16,925	13.6
Bad debts expense	45,000	36.1
Total Operating Expenses	473,639	380.2
Operating Income (Loss)	(349,110)	(280.2)
<b>Nonoperating Revenues</b>		
Interest income	2,042	
Property tax - City of Monroe, net of allowance	229,914	
Nonoperating Revenues	231,956	
Change in Net Assets	(117,154)	
Total Net Assets, Beginning of Year	3,297,499	
Total Net Assets, End of Year	\$3,180,345	
(See accompanying notes to financial statements)		

**STATEMENT OF CASH FLOWS**  
For the Fiscal Year Ended June 30, 2005

**Cash Flows From Operating Activities:**

Cash received from customers and tenants	\$127,385
Cash payments to suppliers for goods and services	(287,392)
Cash payments to employees for services	(39,800)

Net Cash Provided By (Used For) Operating Activities	(199,807)
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**Cash Flows From Noncapital Financing Activities:**

Cash received from property tax - City of Monroe	275,907
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Net Cash Provided By (Used For) Financing Activities	275,907
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**Cash Flows From Capital and Related Financing Activities:**

Purchase of capital assets	(306,128)
Principal payment on long-term debt	(20,000)
Proceeds from issuance of long-term debt	260,000

Net Cash Provided By (Used For) Financing Activities	(66,128)
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**Cash Flows From Investing Activities:**

Interest received on investments	2,042
Assets added to trust and escrow	(154)
Trust and escrow reductions	8,527

Net Cash Provided By (Used In) Investing Activities	10,415
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Net Increase (Decrease) in Cash and Cash Equivalents	20,387
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Cash and Cash Equivalents, Beginning of Year	100,813
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Cash and Cash Equivalents, End of Year	\$121,200
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(See accompanying notes to financial statements)

RECONCILIATION OF OPERATING INCOME TO NET CASH  
PROVIDED BY OPERATING ACTIVITIES  
For the Fiscal Year Ended June 30, 2005

Operating Income (Loss)	(\$349,110)
Adjustments to Reconcile Operating Income (Loss) from Operations to Net Cash Provided by (Used for) Operating Activities:	
Depreciation	93,346
Change in Assets and Liabilities:	
Decrease (Increase) in accounts receivable	45,904
Decrease (Increase) in prepaid expenses	321
Increase (Decrease) in accounts payable	(3,636)
Increase (Decrease) in deposits	7,000
Increase (Decrease) in other accounts payable	1,416
Increase (Decrease) in deferred income - rent	4,952
Total Adjustments	<u>149,303</u>
Net Cash Provided by (Used for) Operating Activities	<u><u>(\$199,807)</u></u>

(See accompanying notes to financial statements)

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2005

Note 1      Summary of Significant Accounting Policies

The following is a summary of the more significant accounting policies of the Port of Monroe.

A. Financial Reporting Entity

The Port of Monroe is a separate legal entity and a component unit of the City of Monroe for financial reporting purposes.

The Port was created by public vote in 1932, under the Michigan Port Districts Act 234 of 1925, as amended. It is administered by the Monroe Port Commission, consisting of five commissioners appointed to three year terms by the Mayor of the City of Monroe.

B. Basis of Presentation

The operations of the Port are accounted for in a single enterprise type fund as outlined in Governmental Accounting Standards Board (GASB) No. 34. The fund is used to account for operations that are financed through user charges to the general public.

C. Basis of Accounting

The Port of Monroe uses the accrual basis method of accounting. Under this method, revenues are recognized when earned and expenses are recognized when incurred. Depreciation expense is recorded for the period.

The Port distinguishes operating revenue and expense from non-operating items. The principal operating revenues are rent, wharfage, dockage and administrative support. Non-operating revenue includes property taxes, appropriated by the City of Monroe, and interest. The Port applies only those applicable FASB pronouncements issued prior to November 30, 1989.

D. Budget Information

Prior to the beginning of the fiscal year a budget is approved by the Port Commission subject to the approval of the Monroe City Council. Budget amounts are as originally adopted, or as amended if applicable. Unexpended appropriations lapse at year end.

E. Cash and Cash Equivalents

Cash and cash equivalents include cash in banks, certificates of deposit and investment pools with original maturities of less than three months. Currently the Port only has cash in checking and money market investment pool accounts which it considers to be cash and cash equivalents.

F. Capital Assets

Items capitalized are valued at cost. The depreciable capital assets are depreciated using the straight-line method over the estimated useful lives of the assets.



NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2005

Note 1      Summary of Significant Accounting Policies (Concluded)

## F. Capital Assets (Concluded)

The major portion of these assets are rented to others on operating leases.

<u>Depreciation Categories</u>	<u>Life in Years</u>
Land & Earthen dike	0
Road and site improvements	0-25
Railroad siding	10-50
Wharf	7-50
Dredging	20
Leachate collection system	7-20
Rental building	10-33
Office building	3-39
Furniture and Equipment	5-10

## G. Property Taxes

Properties are assessed and appropriated by the City of Monroe as of December 31. These taxes are billed and become an enforceable lien on the first Tuesday in May of the following year. These taxes are due on June 30 with the final collection date of September 15 before they are added to the county tax rolls.

Property taxes billed each May will be used to finance the following year's operations. As such, these taxes are recorded as deferred revenue at June 30.

## H. Grants

Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

Note 2      Deposits and Investments

On December 16, 1998 the Port Commission adopted an investment policy to invest its funds in a manner which will provide the highest in investment return with the maximum security while meeting the daily cash flow needs of the Port and comply with all state statutes governing the investment of public funds. The primary objectives in priority order of the investment activities are safety of principal, diversification, liquidity, and return on investment. The policy lists the types of investments that are authorized so long as they comply with the applicable state statutes.

The Port's deposits and investments were reported in the balance sheet under the following categories:

Cash and cash equivalents	\$121,200
Restricted cash - held in trust	<u>19,910</u>
<u>Total</u>	<u>\$141,110</u>

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2005

Note 2      Deposits and Investments (Continued)

The breakdown between deposits and investments for the Port are as follows:

Bank deposits (checking accounts, savings accounts, and certificates of deposit)	\$ 29,847
Petty cash	100
Public short-term pooled investment funds held by a bank depository	<u>111,163</u>
	<u>\$141,110</u>

**Deposits**

The above bank deposits reflected accounts of the bank (without recognition of checks written but not yet cleared or of deposits in transit) at \$32,894. It is that amount that was covered by federal depository insurance and the remaining deposits were uninsured and uncollateralized.

**Investments**

The Port's investments are categorized below to give an indication of the level of risk assumed by the Port at the year end. Risk Category 1 includes those investments that meet any one of the following criteria:

- a. Insured
- b. Registered
- c. Held by the Port or its agent

Risk Categories 2 and 3 include investments that are neither insured nor registered. Category 2 includes investments that are held by the counterpart's trust department (or agency) in the Port's name. Category 3 includes investments held by:

- a. The counterpart or
- b. The counterpart's trust department (or agent) but not in the Port's name

The Port's investment balance as of June 30, 2005 was not subject to categorization as follows:

Bank investment pools:	
Short-term mutuals	<u>\$111,163</u>

The investments not subject to categorization are not evidenced by securities that exist in physical or book entry form. The bank investment pools are regulated by the Michigan Banking Act. The fair value of the position in the bank investment pools is \$1.00 per share and is the same as the reported value of the pool shares. The shares are accessible on demand and act as a sweep account to checking.

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2005

Note 2     Deposits and Investments (Concluded)  
**Interest Rate Risks**

The Port's investment policy does not limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. However, the Port manages its exposure to interest rate risk by generally limiting investment maturities to less than one year.

**Credit Risk**

The Port's credit risk is limited by the state statutes governing the investment of public funds and by the Port Commission investment policy which limits the types of investments. The Port has no investment policy that would further limit its investment choices.

**Concentration of Credit Risk**

The Port investment policy refers to diversification by institution as a method to improve security of principal. The Port places no limit on the amount the Port may deposit or invest in any one issuer. As of June 30, 2005, 100% of the deposits and bank held public short-term pooled investment funds were with Monroe Bank & Trust.

**Custodial Credit Risk**

All of the bank pooled investment accounts and bank deposit accounts, except for the cash held in trust of \$19,910, are in the name of the Port.

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2005

Note 3      Property and Equipment

The following table presents the changes in the various fixed asset class categories for the year ended June 30, 2005 as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Nondepreciable Capital Assets:				
Land	\$1,633,209	\$32,500	\$ -	\$1,665,709
Site improvements	346,556	17,141	-	363,697
Earthen dikes	<u>321,061</u>	<u>-</u>	<u>-</u>	<u>321,061</u>
Total Nondepreciable	<u>2,300,826</u>	<u>49,641</u>		<u>2,350,467</u>
Depreciable Capital Assets:				
Road & site improvement	870,082	1,130	-	871,212
Railroad siding	268,785	-	-	268,785
Wharf	218,872	26,623	-	245,495
Dredging	374,445	-	-	374,445
Leachate collection system	36,056	-	-	36,056
Rental buildings	291,805	232,709	-	524,514
Office building	574,614	-	-	574,614
Furniture and equipment	<u>78,359</u>	<u>3,724</u>	<u>-</u>	<u>82,083</u>
Total Depreciable				
Capital Assets	<u>2,713,018</u>	<u>264,186</u>	<u>-</u>	<u>2,977,204</u>
Total Capital Assets	<u>5,013,844</u>	<u>313,827</u>	<u>-</u>	<u>5,327,671</u>
Less Accumulated Depreciation:				
Road and site improvement	237,558	35,218	-	272,776
Railroad siding	131,747	5,705	-	137,452
Wharf	203,820	2,123	-	205,943
Dredging	282,407	18,722	-	301,129
Leachate collection system	15,471	1,761	-	17,232
Rental Buildings	239,768	8,934	-	248,702
Office building	249,657	17,064	-	266,721
Furniture and equipment	<u>68,012</u>	<u>3,819</u>	<u>-</u>	<u>71,831</u>
Total Accumulated	<u>1,428,440</u>	<u>\$ 93,346</u>	<u>\$ -</u>	<u>1,521,786</u>
Total Capital Assets, Net	<u>\$3,585,404</u>			<u>\$3,805,885</u>

Note 4      Assets Held in Trust

As discussed in more detail in Note 9, the Port is taking part in a work plan to resolve the environmental contamination at the Port of Monroe. The Port of Monroe and Harsco Corporation have each advanced funds to a trust to fund a work plan for remedial investigation and feasibility study. The Port's share of the trust fund balance at June 30, 2005 was \$19,910.

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2005

Note 5      Rental Income

The terms of the rental agreements are varied, and are changed from time to time when they are renewed. Several of the agreements can be terminated by written notification in advance by either party while for others the termination clause is conditional. All leases are accounted for as operating leases.

The following is a schedule by years of minimum future rental income on noncancellable operating leases with terms of one year or longer as of June 30, 2005:

2006	\$ 15,365
2007	24,420
2008	32,791
2009	33,535
2010	28,232
2011 and thereafter	<u>26,303</u>
Total	<u>\$160,646</u>

The Port of Monroe, as lessor, has entered into lease agreements which include contingent lease payments. The contingent portion of lease income was \$14,817 for wharfage and \$11,980 for land in fiscal 2005.

Note 6      Retirement Plan

The Port offers its employee a deferred compensation plan with the Equitable Life Assurance Society, which holds the funds as agent. The plan, available to all Port employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to its employee until termination, retirement, death, or unforeseeable emergency. The employee deferred \$3,360 of her compensation in fiscal 2005. The Port budgeted and contributed \$2,130 in fiscal 2005, which was 5.35% of compensation. The total deferred account balance was \$24,882 as of June 30, 2005.

Note 7      Michigan Unemployment

The Port of Monroe has elected the reimbursement method of paying for Michigan unemployment benefits claimed by an eligible Port employee; and therefore, has a contingent liability. Since there is only one employee this unrecorded liability would be relatively small.

Note 8      Monroe County Industrial Development Corporation

The Monroe County Industrial Development Corporation (MCIDC) is a non-profit corporation whose purpose is to promote the development of industry in the area. The Port of Monroe and the MCIDC share similar goals and the MCIDC is providing marketing services to prospective clients interested in locating in the Port area.

MCIDC occupies office space at the Port office building in exchange for marketing services. The rental value and services were valued at \$10,000 for fiscal June 30, 2005. MCIDC reimburses the Port for postage and incidental items.

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2005

Note 9      Port Property Under Environmental Remediation

The Port of Monroe owns approximately 317 acres of a 480 acre track of land that has been identified as a site of environmental contamination by the Michigan Department of Environmental Quality (MDEQ). The MDEQ has notified the Port Commission and more than seventy (70) other individual and corporate entities that they have been identified as potentially responsible parties. The remedial investigation of the land has been substantially completed. The data collected has demonstrated that there is no serious risk to human health or to the environment. The land is available for industrial development except for relatively small portions needed to construct and maintain shore protection, intermodal transportation easements, and utility corridors. By submitting a baseline environmental assessment (BEA) under Michigan's Natural Resources and Environmental Protection Act (NREPA) to the MDEQ, prospective developers have liability protection from existing environmental contamination. Remedial action will probably consist of limited monitoring and shore protection in selected areas. The Port Commission and Harsco Corporation continue to work cooperatively with MDEQ toward a final remedial action plan (RAP) for all of the land that will bring closure to the site. An interim remedial action plan (IRAP) for the land east of Interstate 75 has been reviewed by MDEQ. The Port representatives have met with MDEQ to discuss various options which are currently under consideration. The Port Commission has established the sum of \$300,000 on its balance sheet under liabilities to represent an estimate of its share of the remedial action costs based upon present information.

Note 10      Risk Management

The Port is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Port participates in the Michigan Municipal League Liability and Property Pool (MMLLPP), a public entity risk pool operating a common risk management and insurance program. The Port pays an annual premium to MMLLPP for its general insurance coverage. MMLLPP is self-sustaining through member premiums and reinsures through commercial companies for claims in excess of \$500,000 for each insured event. The Port carries workers' compensation insurance with the Michigan Municipal League.

Settled claims resulting from the various risks described above have not exceeded commercial insurance coverage in any of the past three fiscal years.

Note 11      Due to City of Monroe

The City of Monroe is obligated to repay the Michigan Economic Development Corporation \$400,000. A grant was obtained by the City of Monroe for Port improvements intended to encourage development and create jobs. Since the conditions of the grant were not met by the deadline, the City is required to repay the grant over ten years with possible reductions of \$20,000 per job created during the repayment period. The Port has agreed to participate in the repayment on an annual basis.

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2005

Note 11    Due to City of Monroe (Concluded)

The maximum amount is recorded "due to the City of Monroe," totaling \$100,000 as of June 30, 2005.

Balance - July 1, 2004	\$120,000
Principal paid	<u>20,000</u>
Balance - June 30, 2005	<u>\$100,000</u>

The annual requirements to service the debt outstanding as of June 30, 2005 are as follows:

<u>Fiscal June 30</u>	
2006	\$ 20,000
2007	20,000
2008	20,000
2009	20,000
2010 and thereafter	<u>20,000</u>
Total	<u>\$100,000</u>

Note 12    Land Contract Liability

On June 20, 2005 the Port of Monroe purchased a building next to the Dorsch Memorial Library on a land contract for \$260,000. The first payment is due on October 1, 2005 which will include acquisition costs of \$2,917, interest at 3%, and the balance on the contract principal. Subsequent payments will be interest only, due on June 20 of each year until the balloon payment of principal on June 20, 2010. The contract may be paid off early without penalty. The Port was required to pay Summer 2005 property taxes assessed in the amount of \$2,292, and will be required to pay Winter 2005. Since the Port is a governmental entity, in future years the Port will be exempt from property taxes.

Balance - July 1, 2004	\$ -
Land Contract Signed June 20, 2005	260,000
Principal Paid	<u>-</u>
Balance - June 30, 2005	<u>\$260,000</u>

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2005

Note 12    Land Contract Liability (Concluded)

The annual requirements to service the debt outstanding as of June 30, 2005 are as follows:

<u>Fiscal June 30</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>
2006	\$100,672	\$ 94,342	\$ 6,330
2007	4,970	-	4,970
2008	4,970	-	4,970
2009	4,970	-	4,970
2010	<u>170,628</u>	<u>165,658</u>	<u>4,970</u>
Total	<u>\$286,210</u>	<u>\$260,000</u>	<u>\$26,210</u>

Note 13    Contingencies

In the normal course of its activities, the Port may be a party to certain legal actions. The Port and its legal counsel are of the opinion that there are no legal actions which will have a material effect on the financial statements.



## **SUPPLEMENTAL INFORMATION**

**BUDGETARY COMPARISON SCHEDULE**  
For the Fiscal Year Ended June 30, 2005  
(See Accompanying Independent Auditors' Report)

	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance From</b>
	<b>Original</b>	<b>Final</b>	<b>Amounts</b>	<b>Amended Positive (Negative)</b>
<b>Operating Revenues</b>				
Building rental	\$44,000	\$44,000	\$44,693	\$693
Land rental	48,000	28,000	28,488	488
Wharfage and dockage	37,500	37,500	36,652	(848)
MCIDC - office rental	10,000	10,000	10,000	0
Administrative services	0	4,200	4,200	0
Other	0	496	496	0
<b>Total Operating Revenues</b>	<b>139,500</b>	<b>124,196</b>	<b>124,529</b>	<b>333</b>
<b>Operating Expenses</b>				
Consulting engineers	50,000	80,000	74,828	5,172
Salaries	35,600	39,800	41,216	(1,416)
Environmental expense	15,000	8,000	15,876	(7,876)
Environmental travel and meetings	2,000	100	90	10
Repairs and maintenance	55,000	55,000	46,332	8,668
Legal	55,000	63,000	57,163	5,837
Auditing and accounting	10,000	11,100	10,360	740
Utilities	8,000	8,000	7,930	70
Telephone	1,200	1,200	1,066	134
Office supplies and postage	2,000	3,100	2,166	934
Life and medical benefits	1,000	500	431	69
General insurance	33,000	32,000	31,503	497
Payroll tax	2,750	3,045	3,045	0
Office cleaning	3,200	3,200	3,120	80
Travel - general	1,000	3,000	1,347	1,653
Promotion	2,000	1,500	1,222	278
Dues and subscriptions	2,200	2,000	2,055	(55)
Deferred compensation plan	2,130	2,130	2,130	0
Miscellaneous expense	1,000	800	422	378
Commissioner fees	5,000	5,000	4,900	100
Contingency expense	1,000	0	0	0
Security	1,000	0	74	(74)
Advertising	2,500	1,200	1,092	108
MCIDC - marketing	10,000	10,000	10,000	0
Depreciation expense	92,000	93,500	93,346	154
Wastewater treatment	30,000	20,000	16,925	3,075
Bad debts expense	0	45,000	45,000	0
<b>Total Operating Expenses</b>	<b>423,580</b>	<b>492,175</b>	<b>473,639</b>	<b>18,536</b>
<b>Operating Income (Loss)</b>	<b>(284,080)</b>	<b>(367,979)</b>	<b>(349,110)</b>	<b>18,869</b>
<b>Nonoperating Revenues (Expenses)</b>				
Interest income	2,000	2,000	2,042	42
Property tax - City of Monroe net of allowance	230,000	230,000	229,914	(86)
<b>Net Nonoperating Revenues</b>	<b>232,000</b>	<b>232,000</b>	<b>231,956</b>	<b>(44)</b>
<b>Change in Net Assets</b>	<b>(\$52,080)</b>	<b>(\$135,979)</b>	<b>(\$117,154)</b>	<b>\$18,825</b>



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Port of Monroe  
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#### Report of Comments and Recommendations

#### Board Members:

In planning and performing our audit of the financial statements of the Port of Monroe, for the year ended June 30, 2005, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control structure.

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. During the course of our audit, we noted certain practices and procedures which we believe are worthy of comment.

Our comments on these items are set forth herein for your review and have been discussed with appropriate personnel. These comments are based primarily upon procedures employed during our examination and therefore, do not encompass all matters that might result from special studies directed toward such matters.

#### Commission Participation

The internal control system of the Port of Monroe is comprised of one clerical person, along with the involvement of the Port Commission and the City Clerk-Treasurer. We want to stress the importance of the Port Commission's continued participation in the system.

Monroe Port Commission

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Accounting for Environmental Costs

The purpose of this comment is to review the accounting for environmental costs. A liability was recorded based on an estimate of the Port's share of costs to resolve the environmental problems in a manner acceptable to The Michigan Department of Environmental Quality. The estimates and their methodology should be documented for future reference and compared to expenditures made. Any change in the estimate would be recognized at that time.

In the future, as the costs are paid, the environmental liability on the Port's balance sheet would decrease.

We wish to express our appreciation for the continuing cooperation and courtesy extended to us by all officers and employees of the Port. We would be pleased to discuss any of these recommendations with you, and to provide any assistance that you may require in their implementation.

Very truly yours,

*Cowley Hohl Wohlgamuth & Carlton, PLLC*

July 20, 2005